

Message Text

UNCLASSIFIED

PAGE 01 RIO DE 01602 282333Z

65

ACTION ARA-10

INFO OCT-01 ISO-00 AGR-10 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 /079 W

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R 281340Z APR 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 3621

INFO AMEMBASSY BRASILIA

AMCONSUL RECIFE

AMCONSUL SAO PAULO

UNCLAS RIO DE JANEIRO 1602

E. O. 11652: N/A

TAGS: EAGR, ETRD, BR

SUBJ: SUGAR MARKET SITUATION

1. DURING MEETING WITH CONGEN OFFICERS, ALBERICO TEIXEIRA LEITE, EXPORT DIRECTOR OF BRAZILIAN SUGAR AND ALCOHOL INSTITUTE (IAA), DENIED RECENT PRESS REPORTS ANNOUNCING THAT BRAZIL WOULD IMPORT 300,000 TONS OF SUGAR TO SATISFY DOMESTIC NEEDS. TEIXEIRA LEITE ADMITTED THAT SUGAR IMPORTS WOULD MAKE ECONOMIC SENSE. BRAZIL'S SUGAR CROP IS PRODUCED ALMOST EQUALLY IN SOUTHEAST (MAINLY IN SAO PAULO STATE) AND IN THE NORTHEAST. MAIN SHORTFALL IN 1975/76 CROP HAS BEEN IN SOUTHEAST WHICH IS ALSO MAIN CONSUMPTION AREA. IT HAS PROVED NECESSARY TO SHIP SUGAR FROM NORTH TO SOUTH TO SUPPLY DEMAND. GIVEN BRAZIL'S HIGH COST OF INTERNAL TRANSPORT IT MAY HAVE BEEN CHEAPER TO IMPORT SUGAR DIRECTLY THROUGH SOUTHEAST PORTS AND EXPORT EQUIVALENT QUANTITY FROM NORTHEAST. (NOTE: BRAZIL DOES MUCH THE SAME THING IN MANGANESE, EXPORTING FROM AMAPA IN THE FAR NORTH AND IMPORTING, MOSTLY FROM GABON, IN CONSUMING AREAS LOCATED IN THE SOUTHEAST). HOWEVER, GOB HAS DECIDED TO CONTINUE TO TRANSFER NORTHEASTERN PRODUCTION IN SPITE OF HIGH COST INVOLVED. SOME NORTHEAST MILLS HAVE SWITCHED TO PRODUCING SEMI-REFINED SUGAR FOR DOMESTIC CONSUMPTION IN PLACE OF RAW

UNCLASSIFIED

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PAGE 02 RIO DE 01602 282333Z

(DEMARA) SUGAR FOR EXPORT. TEIXEIRA LEITE LEFT IMPRESSION

GOB DID NOT CONSIDER IT ADVISABLE TO IMPORT MOSTLY BECAUSE OF POSSIBLE IMPACT ON DOMESTIC PUBLIC OPINION.

2. FOLLOWING ARE OTHER MAIN TOPICS DEVELOPED DURING MEETING:

(A) THE 1975/76 SUGAR CROP IS NOW ESTIMATED AT 5.88 MILLION TONS (98 MILLION BAGS OF 60 KILOS), OR 1.7 MILLION TONS LESS THAN ORIGINAL FORECAST. SOUTHEAST REGION ACCOUNTED FOR ABOUT 70 PERCENT OF CROP FAILURE. FLOODS IN NORTHEAST ARE RESPONSIBLE FOR REMAINDER OF SHORTFALL.

(B) THE 1976/77 CROP IS ESTIMATED AT 7.8 MILLION METRIC TONS (130 MILLION BAGS). THE IAA HAS PUSHED FORWARD THE STARTING DATE FOR SUGAR PROCESSING FROM JUNE 1 TO MAY 1, 1976, TO SUPPLY DOMESTIC NEEDS IN SOUTHEASTERN REGION, HOPING TO LESSEN NEED TO TRANSPORT ADDITIONAL FROM NORTHEAST.

(C) ANNUAL SUGAR CONSUMPTION IN BRAZIL IS 41 KILOS PER CAPITA. DOMESTIC NEEDS ARE ESTIMATED AT 4.4 MILLION TONS BASED ON POPULATION ESTIMATES OF 107 MILLION.

(D) THE IAA SUGAR EXPORT FUND (SEE ITEM 5 OF BRASILIA A-185 OF NOVEMBER 19, 1975) USED TO MODERNIZE SUGAR INDUSTRY AND TO SUBSIDIZE PRICE OF DOMESTIC CONSUMPTION, IS NEARLY DEPLETED.

(E) BRAZILIAN SUGAR EXPORTS DURING PERIOD JANUARY 1 TO APRIL 22, 1976 WERE ABOUT 278 THOUSAND TONS VALUED AT ABOUT 89 MILLION DOLLARS. MOST OF THESE EXPORTS WERE MADE TO MEET COMMITMENTS UNDER LONG TERM CONTRCTS AND ARE BASED ON AVERAGE NEW YORK SPOT PRICE OF PRECEDING MONTH. EXPORTS WILL REMAIN LOW DURING THE FIRST SIX MONTHS OF 1976. THEY SHOULD PICK UP, HOWEVER, IN AUGUST OR SEPTEMBER WHEN THE 76/77 CROP WILL BE AVAILABLE.

3. TEIXEIRA LEITE STATED BRAZIL CAN EXPORT PROFITABLY AT CURRENT LOW INTERNATIONAL MARKET PRICES. HE BELIEVES THAT INTERNATITNAL MARKET PRICES WILL OSCILLATE WITHIN THE 14-18C P/LB RANGE. HE DOES NOT FORESEE POSSIBILITIES FOR FUTURE PEAKS SIMILAR TO THOSE OBSERVED IN 1974, UNLESS HIGHLY ADVERSE CLIMATIC EFFECTS OCCUR IN A NUMBER OF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 RIO DE 01602 282333Z

EXPORTING COUNTRIES. TEIXEIRA LEITE STATED FURTHER THAT WITHIN GOB THERE WAS A MISUNDERSTANDING OF BRAZIL'S ROLE AS SUGAR EXPORTING COUNTRY. SOME GOVERNMENT OFFICIALS SEE BRAZIL AS DECISIVE INFLUENCE IN SUGAR. TEIXEIRA LEITE DOES NOT. BRAZIL IS A RESIDUAL EXPORTER WITH PRODUCTION INTENDED MAINLY FOR DOMESTIC CONSUMPTION. SITUATION IS REVERSE THAT OF COFFEE. HE USED EXAMPLE OF SHORTFALLS IN THIS YEAR'S COFFEE AND SUGAR CROP TO EMPHASIZE DIFFERENCES. COFFEE PRICES HAVE

SKYROCKETED WHILE SUGAR PRICES HAVE PLUMETED.

4. EMBASSY CONCURS THIS MESSAGE.

FRECHETTE

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